

**SOUTH CENTRAL MICHIGAN
CONSTRUCTION CODE INSPECTION, INC.
FINANCIAL STATEMENTS
As of March 31, 2004**

AUDITING PROCEDURES REPORT

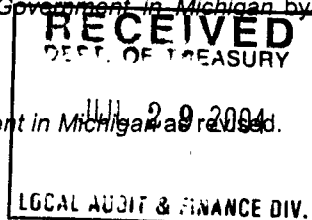
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>South Central MI Construction Code Inspection</u>	County <u>CALHOUN</u>
Audit Date <u>MARCH 31, 2004</u>	Opinion Date <u>July 13, 2004</u>	Date Accountant Report Submitted to State: <u>July 27, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <u>WALKER, FLUKE & SHELTON, PLLC</u>			
Street Address <u>525 W Apple St</u>	City <u>Hastings</u>	State <u>MI</u>	ZIP <u>49058</u>
Accountant Signature <u>Walker, Fluke & Sheldon, PLLC Katherine K Sheldon, CPA</u>			

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Combined Balance Sheet - All Fund Types and Account Groups	2
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - All Proprietary Fund Types	3
Combined Statement of Cash Flows – All Proprietary Fund Types	4
Notes to Financial Statements	5 – 8
Supplemental Financial Data	
Statements of Revenues and Expenses by Location	9



WALKER, FLUKE & SHELDON, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Christopher J. Fluke, CPA
Katherine K. Sheldon, CPA

525 W. Apple Street
Hastings, MI 49058
www.walkerflukeandsheldon.com

Phone (269) 945-9452
Fax (269) 945-4890
E-mail: walkerfluke@voyager.net

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Central Michigan Construction Code Inspection, Inc.

We have audited the accompanying general purpose financial statements of South Central Michigan Construction Code Inspection, Inc., Calhoun County, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of South Central Michigan Construction Code Inspection, Inc.'s management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of South Central Michigan Construction Code Inspection, Inc. as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental financial data listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of South Central Michigan Construction Code, Inc. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Hastings, Michigan
July 13, 2004

Walker, Fluke & Sheldon, PLLC

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004

	PROPRIETARY FUND TYPE
<u>ASSETS</u>	<u>Enterprise</u>
Cash and Cash Equivalents	\$ 155,200
Receivables	3,068
Prepaid Expenses	9,075
Fixed Assets (Net of Accumulated Depreciation)	<u>10,008</u>
Total Assets	<u>\$ 177,351</u>
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Escrow Deposits	\$ 650
Accrued Liabilities	<u>21,345</u>
Total Liabilities	<u>21,995</u>
Fund Equity	
Retained Earnings	<u>155,356</u>
Total Fund Equity	<u>155,356</u>
Total Liabilities and Fund Equity	<u>\$ 177,351</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
For the Year Ended March 31, 2004

Operating Revenues	
Charges for Services	\$ 960,273
Other Operating Revenue	<u>17,689</u>
Total Operating Revenues	<u>977,962</u>
Operating Expenses	
Salaries and Fringes	734,465
Office Supplies	25,069
Bank Service Charges	243
Postage and Delivery	11,016
Insurance	9,572
Printing and Publishing	5,184
Memberships, Training and Dues	478
Repairs & Maintenance	2,415
Professional Fees	27,294
Travel	5,112
Rent	54,792
Refunds	6,282
Utilities	23,621
Depreciation	<u>2,199</u>
Total Operating Expenses	<u>907,742</u>
Net Income (Loss)	70,220
Retained Earnings--April 1, 2003	<u>85,136</u>
Retained Earnings--March 31, 2004	<u>\$ 155,356</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
For the Year Ended March 31, 2004

Cash Flows From Operating Activities:	
Cash Charges for Services	\$ 978,916
Other Operating Revenue	17,689
Cash Payments to Employees for Services	(734,640)
Cash Payments to Suppliers for Goods and Services	<u>(176,620)</u>
Net Cash Provided by Operating Activities	<u>85,345</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition of Capital Assets	<u>(3,031)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(3,031)</u>
Cash Flows From Investing Activities:	
Interest on Cash Equivalents and Investments	<u>-</u>
Net Cash Provided by Investing Activities	<u>-</u>
Net Decrease in Cash and Cash Equivalents	82,314
Cash and Cash Equivalents at Beginning of the Year	<u>72,886</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 155,200</u>
Reconciliation of Operating Income to Net Cash Used by Operating Activities:	
Operating Income (Loss)	\$ 70,220
Depreciation	2,199
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Decrease (Increase) in Accounts Receivable	18,643
Decrease (Increase) in Prepaid Expenses	(604)
Increase (Decrease) in Accounts Payable	(1,376)
Increase (Decrease) in Accrued Liabilities	<u>(3,737)</u>
Net Cash Provided by Operating Activities	<u>\$ 85,345</u>

The Notes to Financial Statements are an integral part of this statement.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF OPERATIONS

South Central Michigan Construction Code Inspection, Incorporated, a governmental joint-venture, was organized in 1997 to administer and enforce certain construction codes and ordinances adopted by each of the member municipalities, provide contractual inspection services and grant administration services to governmental units, private individuals or enterprises, hire competent inspectors, establish appropriate policies and rules for a code enforcement program, arrange for convenient locations where records, permits, and inspections may be obtained, and establish a uniform schedule of fees for permits and inspections. The organization consists of member municipalities, in which each participating municipality selects an elected representative to serve on the Board of South Central Michigan Construction Code Inspection, Incorporated. The members do not have an ownership interest in the Organization, and are not entitled to any share of net assets as a result of termination of membership. As of March 31, 2004, the member municipalities are: City of Albion, Athens Village, Brady Township, Burlington Township, Burr Oak Township, Burr Oak Village, Climax Township, Colon Township, Convis Township, Village of Homer, Homer Township, Leonidas Township, NHPB – Indian Housing Authority, Park Township, Sherman Township, Springport Village and Wakeshma Township.

On September 30, 2002, South Central Michigan Construction Code Inspection, Incorporated entered into a one year agreement with the County of Tuscola pursuant to Michigan's Intergovernmental Contracts between Municipal Corporations Act. This agreement designates South Central Michigan Construction Code Inspection, Incorporated as its agent with the right to fully exercise the Administrative Power under its current Construction Code. This Administrative Power extends to all inspections and administrative enforcement with the exception of those duties and costs designated to be handled and funded by the Tuscola County Prosecuting Attorney. Although the original one year agreement has expired, the parties continue to progress toward the County becoming a full member of the South Central Michigan Construction Code Inspection, Incorporated.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present South Central Michigan Construction Code Inspection, Incorporated and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

BASIS OF PRESENTATION

The accounts of South Central Michigan Construction Code Inspection, Incorporated are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds maintained are consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of South Central Michigan Construction Code Inspection, Incorporated are recorded in only one proprietary fund. Account groups are not necessary, due to the fact that fixed assets and long-term liabilities are recorded directly in the proprietary fund, detailed as follows:

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

Enterprise Fund

This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of South Central Michigan Construction Code Inspection, Incorporated conform to generally accepted accounting principles as applicable to governmental units.

Proprietary Funds

The Proprietary Fund Types (Enterprise) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Corporation applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of moneys are recorded in order to reserve that portion of the applicable appropriation is not employed by South Central Michigan Construction Code Inspection, Incorporated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH, CASH EQUIVALENTS AND INVESTMENTS

For the purpose of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT

Property and equipment used in proprietary fund type operations (enterprise funds) are capitalized and shown on the balance sheet. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line method. The service lives by type of asset are as follows:

Equipment and Furniture	5 - 10 years
-------------------------	--------------

COMBINING FINANCIAL STATEMENTS

Combining financial statements are not presented for the enterprise fund because it is the only fund of its type.

BALANCE SHEET-CASH AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Organization to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptances of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Organization has designated two banks for the deposit of South Central Michigan Construction Code Inspection, Incorporated funds.

The balance sheet caption "Cash and Cash Equivalents", includes imprest cash of \$447.

The Organization's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for South Central Michigan Construction Code Inspection, Incorporated cash deposits are as follows:

	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 117,678	\$ 132,555
Uninsured	<u>37,075</u>	<u>28,655</u>
Total Deposits	<u>\$ 154,753</u>	<u>\$ 161,210</u>

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

FIXED ASSETS

A summary of proprietary fund type property, plant, and equipment at March 31, 2004 is as follows:

	<u>ENTERPRISE FUND</u>	<u>DEPRECIABLE LIFE-YEARS</u>
Equipment	\$ 14,231	5-10
Furniture	<u>1,146</u>	10
Total Cost	15,377	
Less Accumulated Depreciation	<u>5,369</u>	
Net Carrying Amount	<u><u>\$ 10,008</u></u>	

LEASE COMMITMENTS

The organization has entered into two operating leases for office space. The Athens office lease is noncancellable and expires on April 1, 2006. For the reporting period, rent expense is \$4,800. The Tuscola County office lease is one year in length and expires October 1, 2004. For the reporting period, rent expense is \$49,992.

Future minimum rental payments required under operating leases that have remaining noncancellable lease terms in excess of one year as of March 31, 2004, are as follows:

Year Ending March 31, 2005	\$ 7,200
Year Ending March 31, 2006	<u>7,200</u>
	<u><u>\$ 14,400</u></u>

RISK MANAGEMENT

The Organization is exposed to various risks of loss related to property loss, torts, errors and omissions. The Organization's Insurance for general liability, excess liability, auto liability, trunk-line liability, errors and omissions, and physical damage (equipment, buildings and contents) is provided through a commercial insurance company. Settled claims have not exceeded the amount of insurance coverage in any of the past three years.

SOUTH CENTRAL MICHIGAN CONSTRUCTION CODE INSPECTION, INC.
STATEMENTS OF REVENUES AND EXPENSES BY LOCATION
For the Year Ended March 31, 2004

	<u>Athens</u>	<u>Tuscola</u>	<u>Total</u>
Operating Revenues			
Charges for Services	\$ 294,119	\$ 666,154	\$ 960,273
Other Operating Revenue	<u>8,439</u>	<u>9,250</u>	<u>17,689</u>
Total Operating Revenues	<u>302,558</u>	<u>675,404</u>	<u>977,962</u>
Operating Expenses			
Salaries and Fringes	298,847	435,618	734,465
Office Supplies	14,635	10,434	25,069
Bank Service Charges	243	-	243
Postage and Delivery	4,035	6,981	11,016
Insurance	9,572	-	9,572
Printing and Publishing	2,338	2,846	5,184
Memberships, Training and Dues	435	43	478
Repairs & Maintenance	2,188	227	2,415
Professional Fees	20,365	6,929	27,294
Travel	3,041	2,071	5,112
Rent	4,800	49,992	54,792
Refunds	1,615	4,667	6,282
Utilities	14,836	8,785	23,621
Depreciation	<u>1,420</u>	<u>779</u>	<u>2,199</u>
Total Operating Expenses	<u>378,370</u>	<u>529,372</u>	<u>907,742</u>
Net Income (Loss)	<u>\$ (75,812)</u>	<u>\$ 146,032</u>	<u>\$ 70,220</u>



WALKER, FLUKE & SHELDON, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Christopher J. Fluke, CPA
Katherine K. Sheldon, CPA

525 W. Apple Street
Hastings, MI 49058
www.walkerflukeandsheldon.com

Phone (269) 945-9452
Fax (269) 945-4890
E-mail: walkerfluke@voyager.net

Board of Directors
South Central Michigan Construction Code Inspection, Inc.
Athens, MI

We have recently completed the audit of South Central Michigan Construction Code Inspection, Inc., Calhoun County, Michigan. During the course of the audit, the following item came to our attention that requires further comment.

EMPLOYEE POLICIES NEED UPDATING

During the course of the audit, it was required to examine the employee policies, regarding vacation, sick and other compensated time off, looking for unrecorded liabilities. It was noted that the policy is not complete and does not address payment terms at termination, separation or retirement.

According to generally accepted accounting principles, liabilities for vacation leave and other compensated absences should be accrued when the employee earns the benefits and it is probable that the employer will be expected to pay. Payment can be made through paid time off or through cash payments at termination or retirement. However, benefits that have been earned that are expected to expire should not be accrued, such as excess days above a threshold that may be carried forward to the following year.

It is recommended that the employee policies for compensated absences be updated to include the necessary information to properly account for any liability on the financial statements. Each policy for compensated absences should contain the following information: a schedule of when time is earned, the amount that is earned, the rate of pay at which the time will be paid, the amount of benefit that may be carried forward, the total amount that may be accumulated and the amount that will be paid upon termination, separation or retirement.

We would like to take this opportunity to thank the officials of South Central Michigan Construction Code Inspection, Inc. for the cooperation extended to us during the recent audit. If you have any questions concerning the above matters or any other matters concerning the audit, please do not hesitate to contact us.

July 13, 2004

Walker, Fluke & Sheldon, PLC